

TREND ANALYSIS AND FINANCIAL PROJECTIONS

In preparing the annual *Service Program and Budget*, the Research and Budget Department develops a financial trend analysis and five year financial projection before the start of each budget cycle. The analysis, based on an International City Management Association model, looks at the City's economic and financial trends over the previous five years. The financial plan starts with these trends and applies economic assumptions to project the City's General Fund revenues and expenditures forward five years.

This long term approach to budget preparation accomplishes two important goals. First, it allows identification of challenges early - before they become problems. Several years ago, the City's growth of debt was projected as a possible problem. To address this potential problem, the issuance of debt for a comprehensive drainage program was avoided by funding it with Special Purpose Local Option Sales Tax. Also, the annual \$2 million dollar general obligation bond issue for streets and roads was stopped.

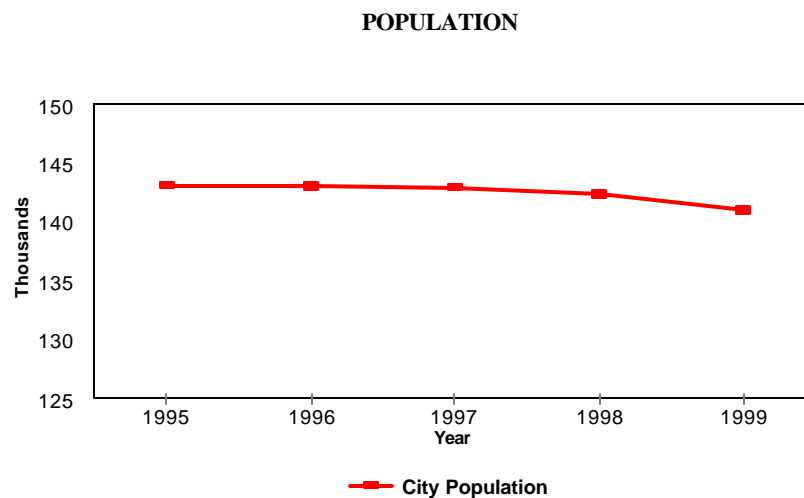
A second goal of trend indicators and long term financial planning is to provide information to the Mayor and Aldermen for policy setting. For example, a negative trend of decreasing per capita income in the City was an important factor leading to the City's renewed emphasis on economic development and job creation, particularly in low income areas.

Excerpts from these analyses are presented in the remainder of this section.

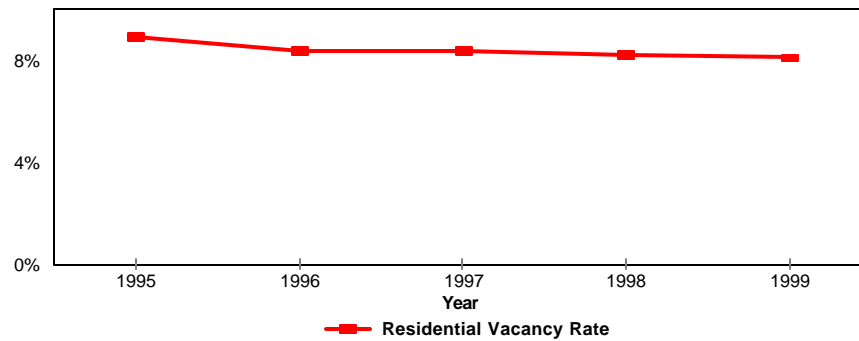
Economic/Demographic Trends

One area of concern identified by the Financial Trend Indicators Report is declining population within the city limits. The City's estimated population decreased 1.4% between 1995 and 1999 (from 143,131 to 141,060). At the same time, the population of unincorporated Chatham County increased 12% between 1995 and 1999.

To address the population growth problem, the City adopted policies to stimulate economic growth and to enhance the attractiveness of the city. For example, the emphasis on housing programs will enable people to build, buy, or rehabilitate houses in the city. The City also supports job training activities to provide all citizens with the skills needed to get and hold a good paying job. Further, quality of life issues ranging from a nationally recognized Community Oriented Policing philosophy to support for numerous cultural activities are promoted.



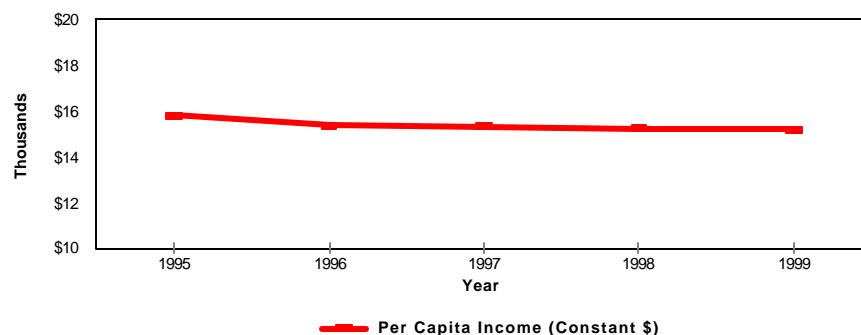
While the City's population has slightly decreased, the residential vacancy rate has decreased from 8.9% in 1995 to 8.1% in 1999. This indicates a favorable trend.

VACANCY RATE

The Savannah economy has experienced significant growth in recent years. This is especially true for the tourism and hospitality industry. One positive outcome of this growth has been the increase in civilian employment as can be seen in the following graph.

EMPLOYMENT BASE

However, much of the employment growth has been in the service sector which typically provides lower paying jobs. This trend toward low wage jobs is a disturbing negative indicator in the Financial Trend Indicators Report. Per capita income for City of Savannah residents rose from \$15,814 in 1995 to \$16,679 in 1999. When corrected for inflation, there is actually a decrease over this period of 4%.

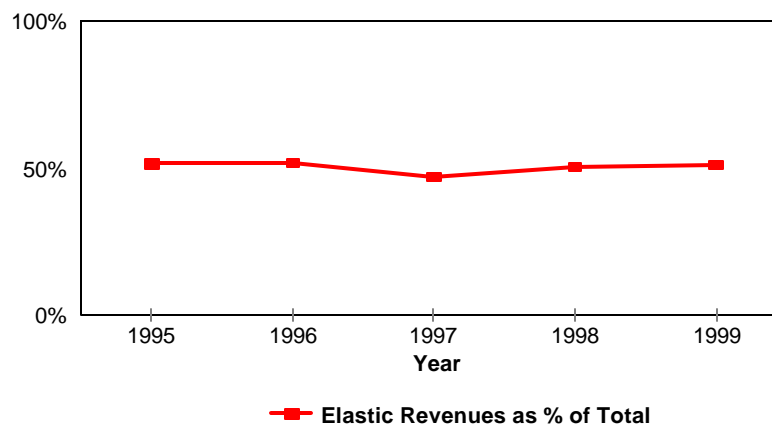
PER CAPITA INCOME

General Fund Revenue

An important indicator of the City's ability to weather economic downturns is its mix of elastic revenue - revenue affected by economic changes such as sales tax and hotel/motel tax - and inelastic revenue such as property taxes. The City's elastic revenue as a percent of total General Fund revenue has remained relatively constant at 50%. The decline in 1997 is due to a one time reduction in sales tax revenue. To further protect the City from economic slowdowns, a sales tax stabilization program was created to reserve sales tax revenue above the historical trend line in good years to be used in years when sales tax revenue comes in below the trend.

Property and sales taxes account for nearly two-thirds of the City's General Fund revenue.

ELASTIC REVENUES



Property Taxes. Property taxes, which make up 33% of the city's General Fund revenue portfolio are relatively inelastic, and are growing at a steady rate.

The City of Savannah's property tax millage rate is above the average of similar southeastern cities. To address this issue, the Mayor and Aldermen have set a goal to reduce the property tax millage rate over time until it is below the average.

When the planned millage rate is applied to the projected property tax digest, the following revenue is projected. The millage rate reductions are projected to keep property tax revenue level for the next five years. This loss of revenue growth will be addressed through projected growth in other revenues and expenditure reductions.

Sales Tax. The General Fund's other major source of revenue is sales tax. In Savannah, a 6% sales tax is levied, 4% goes directly to the state, 1% goes to Chatham County as the Special Purpose Local Option Sales Tax (SPLOST), and 1% is shared between Chatham County, Savannah and the seven other municipalities in the county as the Local Option Sales Tax (LOST). Savannah receives 11% of the total revenue generated by sales tax in Chatham County

The 1% Local Option Sales Tax is collected county-wide and allocated to the county and municipalities based on an agreement which must be re-negotiated after every decennial census. From 1992 through 1996, Savannah's share of the LOST was 71%. In 1997, the City had a one time reduction to 57%. And from 1999 through 2002, the City's LOST share is 69%. Applying these percentage allocations to the county-wide sales tax base - which we project to grow steadily for the next five years.

General Fund Expenditures

Debt/Resource Recovery. From 1993 through 1999, the City increased its level of debt to fund major drainage projects and install federally mandated air pollution control equipment at the Resource Recovery Facility.

Sanitation Subsidy. For many years, elimination of the General Fund subsidy to the Sanitation Fund has been a goal. With the increased costs due to installation of federally mandated pollution control equipment at the Resource Recovery Facility, this goal cannot be met without prohibitive increases in refuse collection and disposal fees. Therefore, an increase in the General Fund subsidy to Sanitation is planned each year through 2004. Savings generated by refinancing of General Fund supported debt will offset a large part of this increasing expenditure.